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May 14, 1999

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MAY 14 1999

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**VIA HAND DELIVERY**

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

Re: Oral and Written Ex Parte Presentation -  
CC Docket No. 96-45 /

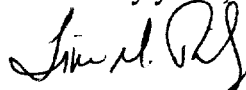
Dear Ms. Salas:

On behalf of Puerto Rico Telephone Company ("PRTC"), we hereby report an oral and written ex parte presentation, made yesterday May 13, 1999, in the above-referenced proceeding. The arguments delivered in PRTC's oral ex parte presentation are consistent with PRTC's prior filings in the proceeding and are summarized in the attached written materials, provided during the meeting. In addition, the participants described the high cost aspects of providing service in Puerto Rico and the current ownership structure of PRTC.

Joe D. Edge, Joaquín Márquez, and the undersigned of Drinker Biddle and Reath LLP and David Blessing of Parrish, Blessing and Associates participated in the meeting on behalf of PRTC. The presentation was made to L. Charles Keller, Richard Cameron, Katie King, and Jack Zinman of the Accounting Policy Division, Common Carrier Bureau.

Two copies of PRTC's written presentation are submitted with this letter pursuant to Section 1.1206(b)(1) of the Commission's Rules, 47 C.F.R. § 1.1206(b)(1).

Sincerely yours,

  
Tina M. Pidgeon

Enclosures

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**FEDERAL COMMUNICATIONS COMMISSION  
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**ISSUE: ELIMINATING UNIVERSAL SERVICE SUPPORT FOR  
PUERTO RICO THREATENS SUBSCRIBERSHIP**

**PUERTO RICO SERVICE PENETRATION LAGS BEHIND THE NATIONAL  
AVERAGE BY 20%**

Puerto Rico	74.8% <sup>1</sup>
United States	94% <sup>2</sup>

**PUERTO RICAN INCOME IS ONE-THIRD THE NATIONAL AVERAGE**

Puerto Rico	\$ 8,509 <sup>3</sup>
United States	\$25,288 <sup>4</sup>

**ONE-THIRD OF PUERTO RICAN HOUSEHOLDS QUALIFY FOR PUBLIC  
ASSISTANCE**

Puerto Rico	34.6% <sup>5</sup>
United States	10.3% <sup>6</sup>

**REDUCTION OR ELIMINATION OF EXPLICIT USF SUPPORT WILL  
INCREASE END USER RATES**

**PROJECTED EXPLICIT USF SUPPORT (1999)**

\$135 million: <sup>7</sup>	\$ 45 million in high cost support
	\$ 90 million in long term support

**CURRENT MONTHLY RATE**

\$15.00 weighted average rate  
\$45.00 adjusted for per capita income

**POTENTIAL EFFECT ON LOCAL RATES OF ELIMINATING  
EXPLICIT USF SUPPORT**

\$23.72 weighted average rate (\$8.72 increase)<sup>8</sup>  
\$71.16 adjusted for per capita income (\$26.16 increase)<sup>9</sup>

## **SOLUTION:      ADOPT ONE OF TWO PENDING TRANSITION PROPOSALS**

### **PRTC PROPOSAL**

#### **Subject carriers serving insular areas to the same schedule for transition to a proxy model methodology established for rural carriers**

The Commission delayed transition for rural carriers "because the cost models in the record of this proceeding produced a higher margin of error for rural carriers." USF Fourth Order on Reconsideration, ¶ 78. **The same has been true for PRTC.**

The Commission must ensure affordable universal service for insular areas. Sec. 254(b)(3). **Puerto Rico is an insular area.**

The Commission recognized the possible need to adjust the schedule for non-rural carriers serving insular areas if information for these areas was not included in the economic cost models. USF First Report and Order, ¶ 317. **Puerto Rico data has been difficult to develop and test, and the schedule for non-rural carriers serving Puerto Rico must be adjusted.**

### **JOINT BOARD "HOLD HARMLESS" PROPOSAL**

#### **No non-rural carrier will receive less federal high cost assistance than the amount it currently receives from explicit support mechanisms**

"If substantial reductions [in support] were to occur in a single year, some consumers could experience rate shock. Both significant, sudden increases in the fund size overall, and significant decreases in the support that goes to a particular carrier, could have a notable impact on consumers' rates." Second Recommended Decision, ¶ 51. **Puerto Rico consumers would experience a substantial increase in rates with the elimination of explicit USF support.**

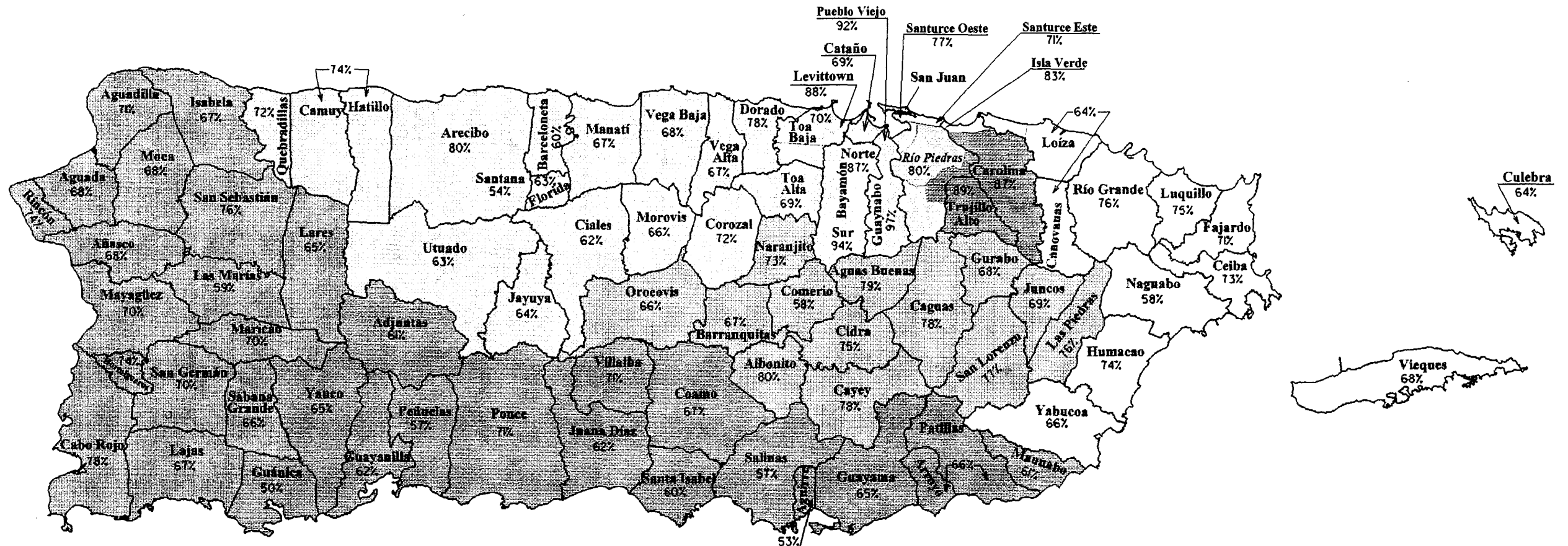
The Joint Board was cognizant of the benefits of its proposal for Puerto Rico. Second Recommended Decision, ¶ 53. **The proposal is expressly applicable to Puerto Rico Telephone Company.**

Hold harmless is consistent with the Commission's pledge to Congress that "no state should receive less federal high cost assistance than it currently receives." Report to Congress, ¶ 197. **Puerto Rico may lose significant support under a proxy model methodology.**











## SOURCES

- <sup>1</sup> Puerto Rico Telephone Company (subscriber map attached).
- <sup>2</sup> "Telephone Subscribership in the United States," Industry Analysis Division, Common Carrier Bureau (rel. May 1999), Table 1.
- <sup>3</sup> "1997 Local Area Personal Income," Bureau of Economic Analysis, Commerce Department (May 6, 1999).
- <sup>4</sup> "Puerto Rico in Figures," Government Development Bank for Puerto Rico (1997) at 2.
- <sup>5</sup> Total households in Puerto Rico as of April 30, 1999/Households eligible for public assistance as of April 30, 1999
- <sup>6</sup> Dalaker, Joseph and Mary Naifeh, U.S. Bureau of the Census, Current Population Reports, Series P60-201, Poverty in the United States: 1997, U.S. Government Printing Office, Washington, D.C., 1998 at viii.
- <sup>7</sup> 1999 estimates based on actual data for January through April, 1999.
- <sup>8</sup> Estimated PRTC explicit USF Support/1.3 million lines in Puerto Rico/  
12 months = \$ 8.72
- <sup>9</sup> Total from line 8 x ratio of Puerto Rico per capita income to United States per capita income

**PERCENTAGE OF HOUSEHOLDS WITH A TELEPHONE  
DECEMBER 1998**



**LEYEND**

	<b>METRO NORTH</b>	= 74%		<b>ISLAND NORTH</b>	= 69%
	<b>METRO SOUTH</b>	= 80%		<b>ISLAND SOUTH</b>	= 65%
	<b>METRO EAST</b>	= 88%		<b>ISLAND EAST</b>	= 70%
	<b>METRO WEST</b>	= 90%		<b>ISLAND WEST</b>	= 70%
	<b>METRO CENTRAL</b>	= 90%		<b>ISLAND CENTRAL</b>	= 74%

**TOTAL P.R.T.C. = 74.8%**

***PUERTO RICO***

*Depto. Apoyo Técnico y Administración de Procesos de Ing.  
y Construcción de Planta Externa*

**Mapa Base - Depto. Mecanización de Planta Externa**

Archivo :tcpocex.dgn

Preparado por: Sra. L. Vázquez

Revisado : Abril/27/1999